

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01  
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
LAB-04 EPG-02 SIL-01 OMB-01 AGRE-00 ABF-01 PA-02  
PRS-01 /070 W  
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R 311206Z MAY 77  
FM AMEMBASSY NEW DELHI  
TO SECSTATE WASHDC 3759  
INFO U.S. TREASURY WASHDC  
AMCONSUL BOMBAY  
AMCONSUL CALCUTTA  
AMCONSUL MADRAS

UNCLAS NEW DELHI 7749

E.O. 11652: N/A  
TAGS: EFIN, IN  
SUBJECT: RBI ANNOUNCES CREDIT POLICY FOR 1977-78

SUMMARY: ON MAY 27, RBI GOVERNOR M. NARASIMHAN  
OUTLINED THE CREDIT POLICY FOR THIS FISCAL YEAR. WHILE  
COMMERCIAL CREDIT TO THE BUSINESS SECTOR IS BEING MADE  
CHEAPER, INTEREST RATES ON SAVINGS AND FIXED DEPOSITS  
HELD BY MEMBERS OF THE PUBLIC IN BANKS ARE TO BE LOWERED.  
END SUMMARY.

1. THE NEW CREDIT POLICY ANNOUNCED BY RBI GOVERNOR  
NARASIMHAN SEEKS TO MAINTAIN A DEGREE OF RESTRAINT IN  
THE ECONOMY WHILE AT THE SAME TIME ENCOURAGING PRODUCTIVE  
INVESTMENT, AIDING PRODUCTION AND EXPORTS AND AUGMENTING  
SUPPLIES OF ESSENTIAL CONSUMER GOODS AND RAW MATERIALS  
THROUGH IMPORTS.

2. IN AN EFFORT TO RATIONALIZE THE COST STRUCTURE  
OF CREDIT, THE BANKS HAVE BEEN ASKED TO LOWER THE RATES  
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OF INTEREST ON TERM LOANS OF NOT LESS THAN THREE YEARS  
FROM THE PRESENT CEILING OF 14-15 PERCENT TO 12.5 PERCENT.  
THIS MOVE IS TO PROVIDE FURTHER STIMULUS TO LONG-TERM  
CAPITAL INVESTMENT. IN ESTABLISHING A NEW STRUCTURE OF  
INTEREST RATES FOR SAVINGS DEPOSITS HELD BY THE PUBLIC, THE  
RBI HAS FOR THE FIRST TIME MADE A DISTINCTION BETWEEN  
SAVINGS ACCOUNTS WITH CHECKING FACILITIES AND THOSE

WITHOUT. THE NEW RATE ON THE FORMER WILL NOW BE 3 PERCENT AND ON THE LATTER 5 PERCENT. PREVIOUSLY THE INTEREST RATE ON ALL TYPES OF SAVINGS ACCOUNTS HAD RANGED BETWEEN 5 AND 5.5 PERCENT DEPENDING ON THE SIZE OF THE BANK AS DETERMINED BY ITS LIABILITIES. THE NEW INTEREST RATES WILL TAKE EFFECT JULY 1, 1977. AS FOR FIXED DEPOSITS, INTEREST RATES HAVE BEEN LOWERED AS FOLLOWS: 91 DAYS TO LESS THAN SIX MONTHS FROM 5.5 PERCENT TO 4 PERCENT; SIX MONTHS TO LESS THAN NINE MONTHS FROM 6 TO 4.5 PERCENT; NINE MONTHS TO LESS THAN ONE YEAR FROM 7 TO 5 PERCENT; ONE TO THREE YEARS FROM 8 TO 6 PERCENT; OVER THREE YEARS AND UP TO FIVE YEARS 9 TO 8 PERCENT.

3. THE RBI IN ITS EFFORTS TO COMBAT INFLATION HAS ALSO ANNOUNCED SOME MARGINAL CHANGES IN POLICY WHICH PERTAIN TO RESTRAINING MONETARY EXPANSION IN THE ECONOMY AND SELECTIVE CREDIT CONTROLS. THE IMPOUNDING OF 10 PERCENT OF ADDITIONAL DEPOSITS IN COMMERCIAL BANKS IS TO CONTINUE (SEE NEW DELHI 0652) BUT THE INTEREST RATE PAID BY THE RBI ON THESE DEPOSITS WILL BE RAISED FROM 5.5 PERCENT TO 6 PERCENT EFFECTIVE JUNE 1. IN ADDITION THE RBI WILL BE TAKING MEASURES TO RESTRICT FACILITIES OF REFINANCE AND REDISCOUNT OFFERED TO BANKS. FOR EXAMPLE, IN REGARD TO CREDIT ADVANCED BY BANKS FOR FOOD PROCUREMENT, IT IS NOW PROPOSED, WITH EFFECT FROM JUNE 1, TO RAISE THE BASE LEVEL NOT ELIGIBLE FOR REFINANCE FROM RS. 10 BILLION TO RS. 15 BILLION. FURTHERMORE, ANY OTHER REFINANCING BARRING THE FOOD CREDIT REFINANCING AND THE NEWLY-INTRODUCED 50 PERCENT REFINANCING UNCLASSIFIED

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AGAINST EXPORT CREDIT PERFORMANCE WILL BE ENTIRELY AT THE DISCRETION OF THE RBI, DEPENDING ON THE PERFORMANCE OF A BANK IN VARIOUS VITAL FIELDS.

4. REGARDING SELECTIVE CREDIT CONTROLS, CREDIT MARGINS IN RESPECT OF OILS, OILSEEDS, AND COTTON ARE BEING INCREASED BY 10 PERCENT. AT THE SAME TIME, IN SUPPORT OF THE GOVERNMENT'S PROGRAM FOR IMPORT OF EDIBLE OILS AND COTTON SEEDS, ADVANCES TO ALL PARTIES AGAINST SUCH IMPORTED OILS AND OILSEEDS HAVE BEEN EXEMPTED FROM THE MINIMUM MARGIN AND CEILING LEVELS.

5. REACTION BY TRADE AND INDUSTRIAL CIRCLES TO THE NEW CREDIT POLICY HAS BEEN GENERALLY FAVORABLE BUT THE SMALL DEPOSITOR IS NOT VERY HAPPY. IN CERTAIN QUARTERS APPREHENSIONS ARE BEING EXPRESSED THAT THE NEW POLICY WOULD NOT HELP TO KEEP PRICES FROM RISING. IT IS ALSO FEARED THAT WITH THE REDUCTION IN THE INTEREST RATE, THE TENDENCY TO HOARD STOCKS WOULD INCREASE. THE NEW CREDIT

POLICY IS SEEN AS A SIGNAL THAT THE BUDGET TO BE PRESENTED  
IN MID-JUNE WILL CONTAIN FURTHER MEASURES TO PROMOTE  
INVESTMENT.GOHEEN

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## Message Attributes

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